Effect of Identification of a Tax Haven
Numerical Illustration

1. Assumptions. Applying the net income allocation formula to a unitary entity, it is determined that its world wide business activity is distributed across jurisdictions as follows:

- 10% in Montana
- 50% within the water's edge, including Montana. This implies that 20% of the business activity within the water's edge takes place in Montana.
- 45% in foreign country 1
- 5% in foreign country 2

2. Calculation of Montana tax liability; total world wide net income = $10 million

a. World wide unitary filing. Montana tax = Montana share of world wide activity x world wide net income x applicable tax rate: .10 x $10m x .0675 = $67,500.

b. Water's edge election filing with 50% of world wide net income booked within the water's edge. Montana tax = Montana share of within-water's edge activity x water's edge share of world wide net income x applicable tax rate: .20 x $5m x .07 = $70,000.

c. Water edge election filing with 40% of world wide net income booked within the water's edge, 45% booked in foreign country 1, and 15% booked in foreign country 2. Montana tax = Montana share of within-water's edge activity x water's edge share of world wide net income x applicable tax rate: .20 x $4m x .07 = $56,000.

d. Country 2 is identified as a tax haven and is included within the water's edge. 55% of world wide activity is now within the water's edge, including Montana and 18.18% of activity within the water's edge occurs in Montana. 55% of world wide net income is now booked within the water's edge. Montana tax = Montana share of within-water's edge activity x water's edge share of world wide net income x applicable tax rate: .1818 x $5.5m x .07 = $70,000.